Finance of Local Roads and Streets

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Generally, they are in the worst condition. They are the most hazardous to travel. And they have the greatest proportion of unfunded needs.

Local roads and streets are the aging, often neglected orphans of America's highway transportation system. If they could vote, they would be eligible for child support, Social Security, Medicare, and Medicaid.

As it is, we spend nearly four times more on farm subsidies—$30 billion a year—than we spend on all of the nation's local farm-to-market roads without which our agricultural economy cannot survive.

More than 90 percent of Indiana's urban workforce job commutes in private motor vehicles. These motorists spend, on average, 30 times more just to maintain and insure their automobiles than they pay in user fees to take care of the city and suburban streets they travel every day.

In Indiana, counties, cities and towns have jurisdiction over 87 percent of our total road mileage, and 70 percent of the state's bridges. These routes handle more than 40 percent of all vehicle miles of travel. In most instances, they are the final access to our homes, farms, schools, and businesses.

We can't do without them. We can't put them up for adoption. Nor can we afford to be indifferent or ambivalent about funding responsibilities for Indiana's 80,000 miles of local traffic arteries, with their 12,500 bridges—7,700 of which are rated structurally deficient or obsolete.

When looking for remedies, however, we're frequently told that they can't be prescribed because the extent of the ailment hasn't been fully defined. We know the patient is ill. We hope it isn't terminal. But we're asked to believe that the diagnosis is too inconclusive to justify a major operation.

In the study it performed for the Governor's Highway Efficiency Task Force, the Highway Users Federation emphasized the need for a complete, centralized inventory showing the physical condition and the traffic and safety characteristics of Indiana's county roads and city streets.

The report went ahead to recommend that (quote), "The Indiana legislature specify guidelines for accounting for city and county road expenditures in order to provide more definitive information on how state-apportioned highway user taxes are being spent."

That seems reasonable enough. But the same study also acknowledges that the buying power of these road and street tax dollars, adjusted for inflation, is 10 percent less than total revenue provided in 1970—16 long years ago. Traffic on many of these roadways has doubled or tripled during that period, and heavy trucks make up a much larger percentage of this traffic.

Further research may be justified, but the inescapable fact is that what we spend on these roads is not even adequate, in most instances, for barebones maintenance and repair.

Since this was the only proposal in the study dealing specifically with accountability, the researchers apparently concluded that state agencies do a much better job of financial monitoring and reporting than do their local counterparts.

This report was filed on November 21st of last year. It was only four days later when State Auditor Otis Cox revealed that his office had been sitting—uncomfortably, we hope—on $17 million in undistributed Motor Vehicle Highway Account tax receipts for nearly four years.

As it was explained, a computer program malfunction resulted in the MVH fund's balance being understated from 1978 through 1981. Before the error was finally discovered, the account had an undisclosed $17 million surplus.

I'm curious as to how Chuck Scholer identifies this long-lost entry in HERPICC'S summary of 1986 highway tax receipts and distributions. Since Charles Loos was state auditor when the collections went undetected, perhaps the $17 million line item should be entered as 'Loos change.''

While it is admittedly incomplete, there is a sizable data bank on key elements of Indiana's local road network. Over 18,000 miles of the system is classified, functionally, as principal or minor arterial routes, and as major or minor collectors.

These are the more heavily traveled roads and streets, and we have information on the type and condition of the paved surfaces, the number and width of lanes, average daily traffic counts, and the ratio of this traffic volume to capacity.

Since they serve a particularly important traffic function, the Highway Users Federation study suggested these arterial and collector roads be designated as a special state-aid system, and be made eligible for a specific share of state tax revenue.

This proposal may have some merit, but only if it is part of a much larger plan to bring across-the-board revenue for our state highway and local road programs up to a more adequate level.

We also know from the latest bridge inventory, which is updated annually for the Federal Highway Administration, that half of Indiana's state and local bridges—8,747 of 17,617—are classified as substandard.

In both total numbers and percentages, only 10 other states have a worse bridge scorecard.

Nearly 90 percent of these deficient or obsolete bridges are on county roads, and 85 percent of those are off the federal-aid system.

There are other comparisons that help validate concern about Indiana's roads. Only five other states spend less money than Indiana, per capita, for maintenance and improvement of their road systems. On a dollars-per-mile-of-road basis, Indiana invests 20 percent less than the national average.

And one final, significant statistic. Although they move less than 45 percent of the vehicle-miles of traffic, Indiana's county roads and city streets account for more than 80 percent of our traffic accidents.

Conceding the need for a more complete cataloging of the physical condition and traffic demands of our local roads, we're running a serious risk if we use this as an excuse for ignoring the system's obvious, critical problems.

At the very least, additional financing should be provided—or sources made available—to bring road spending levels closer to the national norm, and to help offset the loss of federal revenue sharing.

As Mr. Barnhart will probably be telling us shortly, there also will be the need to compensate for declining or, at best, no-growth federal-aid highway allocations for the next several years.

About 11 percent of Indiana's local roads and streets are incorporated in the federal-aid system, and 28 percent of our federal-aid bridges are on local roads. And as you know, not less than 15 percent nor more than 35 percent of the state's bridge allocation must be spent on off-system projects.

To the extent that the distributions are discretionary, Indiana passes through a somewhat larger percentage of its federal highway funds to local units than do most other states. Counties, cities, and towns get approximately 25 percent of this money, including all of the urban system funds, two-thirds of the secondary road allocations, half of the bridge dollars, 30 percent of the safety funds, and a fourth of Indiana's 85 percent minimum allocation.

In the federal fiscal year that ended last September 30, local agencies obligated a record $80 million of these funds, up $30 million from the previous year. They even got an extra $4 million as part of the $12 million Indiana received in a redistribution of unobligated federal road funds from other states.

Since the amount of carry-over money was relatively low, the lack of new federal funds is already pinching our local programs, particularly planned urban projects, according to the Indiana Highway Department's Division of Local Assistance.

Indiana also makes a larger share of its state-collected highway user fees available to local government than most states—more than all but six others, to be exact.

If and when we're successful in again getting these fees increased, or tapping other state revenue sources—such as our favorite target, sales tax collections on gasoline—there could be some distribution formula changes. Or there could be some contingency strings attached to local government's share.

There are a couple of reasons for this. As you have just heard, the state highway department has built a very strong and legitimate case for its supplemental highway improvement program. This is a plan that all of us should support.

And, with its general fund transfers expiring at the same time, the highway department's net gain from the 1985 tax package was very slight.

This isn't to say that local government's protagonists in Indianapolis aren't at least as convincing as any of their peers. I don't believe that counties and municipalities have ever been better represented.

But they're dealing with a pretty tough mind-set. For several years, the operative word in the General Assembly for most legislation dealing specifically with local funding is "optional." If you want the money, *you* raise the taxes.

We've had the optional County Individial Adjusted Gross Income Tax, and the County Option Income Tax. Sixty counties have already opted for one or the other, and others are considering such action this year.

Certified distributions this year under the two programs total $200 million. After meeting certain property tax replacement credit requirements—and subject to the usual State Board of Tax Commissioners review—this revenue can be used directly or indirectly to supplement road and street budgets.

Counties can use up to one-fourth of their CAGIT funds, for example, to replace revenue sharing, freeing up this money for virtually any purpose.

Then we have the optional vehicle excise surtax and wheel tax ordinances. This law was enacted in 1980, and amended in 1983 to make it more revenue productive. But only 13 counties have adopted it. They collected $11.2 million last year.

The unrealized road and street revenue potential for the remaining 79 counties is over $35 million. Under existing distribution formulas, that's more than local governments would get from a two-cent increase in Indiana's gasoline tax.

Talk with legislators about funneling more state-collected road revenue to local government and, more often than not, they will remind you that, after six years, only 13 counties have enacted surtax/wheel tax ordinances.

The position of the Transportation Coordinating Board has been that distribution of any increases in state-collected fees to counties, cities, and towns be contingent upon adoption of the two optional taxes.

As for privatization, involving such things as cost-sharing or "impact" fees assessed against developers to help pay for improved off-site access to new commercial or residential projects, it has very limited value.

More often than not, the shoe is on the other foot. Cost-sharing is the furthest thing from the mind of most would-be industrial and commercial benefactors. On the contrary, what they usually demand is a big buck commitment from government for improved service roads and utilities before they condescend to give a proposed building site serious consideration.

In short, there is no free lunch and, literally speaking, no "freeways" in our highway future. Nor can we expect any help from Washington. It's tough enough just trying to get the money back that we're already contributing. Federal highway user fees have been increased only once in the past 25 years. The way things are going, I wonder if any of us will live to see them raised again.

Like it or not, highway "home rule" is coming home to roost—to the states, counties, cities, and towns.

To help cope with this trend, it may be time to open up the avenues of debt financing to more local governmental units—and to the state, for that matter.

We Hoosiers tend to be very self-righteous about our pay-as-we-go philosophy for highway and road and street financing. Such a policy would have more merit if, at the same time, our lawmakers acknowledged that it entails putting more cash up front.

But efforts to increase the gasoline tax and other user fees invariably encounter the argument that the rates shouldn't exceed those in our neighboring states, or national averages. This ignores the fact that all but a handful of the other states borrow money to finance their road programs, passing a large share of the cost on to succeeding generations.

Currently, Illinois, Ohio, Kentucky, and Michigan have a combined toll and non-toll highway bonded indebtedness of over $3.5 billion.

A conservative estimate of the backlog of needed upgrading and expansion work on Indiana's state and local road systems is $1.5 billion. And the problem keeps getting bigger. Inflation alone, even at a moderate 5 percent rate, adds $75 million to the cost every year.

Major capital improvement projects make up a large part of this accumulated need. And it is these projects that are being deferred, year after year, because of insufficient upfront money.

We must be willing to invest in Indiana's future, and in the future of our communities. Our state highways and local roads and streets are a vital element of this economic endowment.

If—and I emphasize that word—if we are unable to bring current revenue up to the levels required to finance these programs, then it is time to consider limited debt financing, judiciously earmarking this supplemental money for priority, high-cost projects.

Helping to pay for the prevention would be a lot less costly for our children than inheriting an outmoded, deteriorated road system. We don't want that to happen and, working together, I don't think we will let it happen.